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The Deposit Squeeze Has Begun

Are you ready for much tougher competition?

After nearly a decade in which deposit funding has been taken for granted, industry analysts now predict a deposit squeeze for the banking industry, and for mid-sized and community banks in particular. Many bankers today are too young to remember what a rising rate environment feels like, and many banks haven't focused attention on core deposit generation in recent years.

But now core deposits are once again taking center stage as a critical strategic challenge for many financial institutions, and growing core deposits is not going to be easy. Most institutions will feel the need for core funding at exactly the same time, resulting in a rather rapid increase in rates and ramp up of marketing and sales activities. Consumers and media have changed considerably since the last cycle, so strategies that worked in the past are not necessarily going to be as effective this time around.

Now is the time to get a lot more focused on core deposits. And CPG can help. We've been working with clients to identify high-potential, low-risk initiatives to grow core deposits through a three-step, cost-effective, and fast process.

A Deposit Growth Sprint consists of three sequential steps:

1. Scope the Opportunity: review current results by business line; assess competitor results; compare to best practices.

2. Deposit Summit: set the funding strategy; prioritize growth opportunities; evaluate ideas for strategic fit and payoff; define game plan.

3. Take Action: create teams to fully define initiatives; size the opportunity and cost; create detailed action plans and timelines.

Establishing First Mover Advantage

While competition has already begun heating up in some markets, it's early days in the battle for deposits. Now is the perfect time to get your team together to map out and implement a plan, before you need to play catch-up with your local and national competitors.

For more information on CPG deposit growth services, contact Mary Beth Sullivan (email, 202-337-7872, @mbsullivanusa)

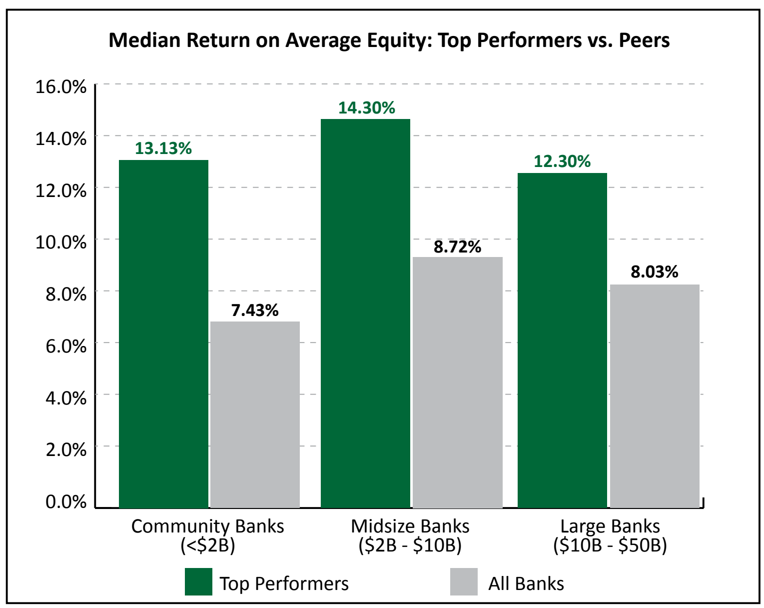
CPG and the American Banker Rank the Top Banks

Each year CPG partners with the American Banker to rank the top performing banks.

CPG, in conjunction with the American Banker Magazine, ranked and analyzed the nation's top banks of 2016. This month, we focused on three groups of banks: community banks (defined as having assets of less than $2B), midsize banks ($2B to $10B), and large banks ($10B to $50B).

Among these groups, the midsize banks were the most profitable – a trend that has persisted since the implementation of Dodd-Frank. Midsize banks generally have the scale to offset elevated compliance costs while also carrying lighter regulatory burdens than institutions with assets greater than $10B.

Among each group, top performers were able to generate a median return on average equity of greater than 12%. The vast majority of the top performers had a ratio of net interest income to average assets that exceeded the peer median. These institutions have deposit and loan growth rates that were well above peer medians. This translated into lower efficiency ratios and higher operating leverage compared to peers. Top performers continued to achieve efficiency ratios that were 5% to 14% lower than peers. Other top performers generated high levels of non-interest income via fee income business lines including wealth management, mortgage banking and cash management.



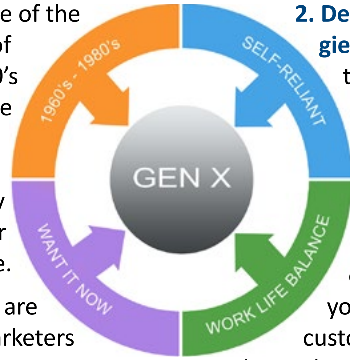
Source: Capital Performance Group analysis of data provided by S&P Global Market Intelligence, Inc., 2017. Financial data is based on SEC filings. If SEC data was unavailable, regulatory financials were used. Data is for the twelve months ended December 31, 2016, unless otherwise indicated.

A full ranking of the midsize banks appears in the June edition of the American Banker Magazine. A more in-depth analysis of the strategies of top performance is provided in CPG's BankThink article, "Three Pathways to High Performance" which appears in the BankThink section of the American Banker. This article also appears in the American Banker Magazine. The ranking of the large banks will appear in the July edition of the American Banker Magazine.

To obtain a spreadsheet that contains the complete rankings of banks, or for other information, please contact Kevin Halsey (email, 202-337-7873, @kevinhalsey).

GenX: Worthy of More Focus

The Rodney Dangerfield of generations should get more respect.



It's tough being a Gen Xer. They've lived through some of the worst economic conditions in recent history – many of them had a tough time findings jobs in the early 1990's after college or graduate school, and many saw a huge decline in their net worth when the Dot Com boom imploded, the housing market tanked and the economy went into the great recession. Some estimates say they lost on average 45% of their net worth – a bigger hit than any other generation has taken in a long time.

Despite these terrible economic conditions, Gen Xers are resilient, successful, and deserving of more focus. Marketers have never been beating down their doors because this generation isn't as large as the Boomers or Millennials, and they aren't known to have the same assets as the Boomers, nor are they known to be as technically savvy as the Millennials. Yet Gen X now represents the largest component of the Mass Affluents (households with at least $100,000 in annual income; approximately 68.5 million consumers) – a segment marketers ***DO*** care about.

In fact, Gen X accounts for 37% of all mass affluent households, and represents approximately 25-31% of current consumption in the U.S. even though this generation makes up only about 20% of the population.

The mass affluent segment - and its Gen X sub-segment - provides a lucrative opportunity for retail banks, community banks and credit unions. Gen Xers are interesting because they are the first generation to have adopted all sorts of new technologies throughout their lives. They are the perfect focus segment for bankers who deliver value through the combination of personal advice/assistance and financial technology capabilities.

How do you begin a segmentation strategy and ensure a focus on Gen X will be profitable? You start at the beginning:

1. Conduct Market Research and Assess Your Competitive Positioning. Take a look at the hard data to define how your organization can differentiate its mass affluent product offering and create value for the segment.

2. Determine Your Value Proposition and Product Strategies. Create the optimal mix of product offerings to meet the needs of these customers. It's time to identify value propositions to create effective differentiation, grow revenue and maximize segment profitability.

3. Create a Sales Strategy and Ensure Sales Team Effectiveness. Gen-Xers are using multiple channels throughout the sales process to research, begin, and complete the sales and onboarding processes. Ensure your organization is capable of supporting sales from the customer's point of view – meaning they can begin, pause and complete the process via any channel at any time.

4. Guarantee Service Effectiveness. Seamless delivery of an excellent and consistent customer experience across all channels is critical. Gen Xers like talking to humans as well as using online resources. When they want to talk with a live person, you have to be prepared and make it count!

5. Understand Pricing and Profitability Management. Your organization should have pro formas and a plan to maximize profitability, rationalize product packaging and implement value-based pricing – and a plan for ongoing pricing strategies, reporting and management.

6. Address Organizational Structure and Effectiveness. Identify the most effective organizational design for executing your segment strategy. Evaluate and implement alternative roles and/or responsibilities that will ensure delivery of effective solutions and the desired experience to your clients.

And as for the Rodney Dangerfield of generations, it's time to give Gen Xers some respect and attention. They are in their prime earning years – and prime years for financial services help and assistance. Why not take a closer look to see if your institution can capitalize on a large, profitable and relatively underserved market? You'll earn their respect and their wallets!

To find out how CPG can help you with your Gen X segmentation strategy, contact Mary Ellen Georgas (email, 917-328-7872, @megeorgas).

Announcements

ABA Payments Forum, June 22-23, Washington DC

CPG's Mary Beth Sullivan presented the results of ABA's Payments Survey 2017 and Claude Hanley moderated an executive panel. CPG partnered with the ABA on its inaugural Payment Survey. Visit the ABA Payments Forum website.

Your Ying Broke My Yang - It's Time to Restore Industry/ Regulatory Balance

by Rolland Johannsen

Relationships between bankers and their prudential regulators have always been complex and complicated. The European Financial Review, June-July 2017.

Emotional Bonding in the Digital Age

by Mark Gibson

With customers turning to self-service tools, how can banks establish and maintain positive emotional connections with customers who visit the branch less frequently? ABA Bank Marketing, May 30, 2017.

Hey Big Spenders, Way To Go: Our 2017 Ranking of Mid-tier Banks

by Alan Kline, featuring Kevin Halsey

The top-performing banks in the $2 billion-to-$10 billion asset class are a diverse group made up of traditional commercial lenders, mortgage powerhouses, serial acquirers and fee generators. But one common characteristic is that they are unafraid to invest in their growth. This is especially striking given the pressure all banks are under to control expenses these days. American Banker, May 31, 2017.

BankThink: Three Pathways to High Performance

by Kevin Halsey

How do the top-performing banks continue to post double-digit returns, despite having the same serious profit-dampening challenges as their peers? The answer isn't exactly straightforward. May 31, 2017.

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